

Michael Davis, Director
Green Mountain Care Board
89 Main Street
Montpelier, VT 05620-3101

July 1, 2015

Dear Mike:

The following narrative outlines the 2016 Operating and Capital budgets for Rutland Regional Medical Center (RRMC). It describes significant changes in operations and explains deviations from the guidelines set forth by the Division of Health Care Administration.

A. EXECUTIVE SUMMARY

RRMC's 2016 budget includes an overall rate increase of 3.7%. The net patient revenue increase from budget to budget is 4.06%, which is more than to the state allowed increase. RRMC has included two exceptions to the 3% state allowed increase related to physician transfers. Marble Valley Urology (private practice of Dr. Bove), transferred to RRMC on January 1, 2015, and Marble Valley Eye Care (private practice of Dr. Coco) will transfer into RRMC on September 15th of this year. (See detail in Overall Net Patient Revenue Budget to Budget Increase section)

Expenses are up by a total of 5.2%. The increase in expenses supports the additional 77.4 FTEs, a 3% salary increase, the new programs and inflation where appropriate. RRMC's margin is 1% lower than Budget 2015 (3.4% for budget 2015, 2.4% for budget 2016). This operating margin is required to fund capital, our pension plan and repay debt service payments.

B. HEALTH REFORM INVESTMENTS

RRMC is not seeking an allowance to the 3% maximum net revenue increase for Health Reform Investments.

C. OVERALL NET PATIENT REVENUE BUDGET TO BUDGET INCREASE

The net patient revenue increase from budget to budget is 4.06%, which is more than the state allowed increase. As stated previously, RRMC has included two exceptions to the 3% state allowed increase related to Physician Transfers.

The FY 2016 budget includes \$1,055,059 net revenue for Marble Valley Urology. This practice transferred from a private practice to RRMC on 1/1/15. This practice includes 2.0 providers FTEs and 10.0FTEs of support staff. Budget 2016 also includes an increase in expenses (including salaries and fringes) of \$1.7 million.

The FY 2016 budget also includes \$1,365,758 net revenue for Marble Valley Eye Care, which will transfer from a private practice to RRMC in the middle of September 2015. This practice includes 1.0 provider FTE and 9.7FTEs of support staff. Budget 2016 also includes an increase in expenses (including salaries, fringes and depreciation) of \$1,225,574.

Excluding the net revenue related to the transfer of these two practices, our net revenue increase from budget to budget is 2.98%, which is below the state allowed increase of 3.0%

The FY 2016 budget also includes Rutland Health Foundation (1/1/15) and the Gift Shoppe (6/1/15), which transferred from separate entities to RRMC.

RRMC has added a new physician (Dr. Henley) in Vermont Orthopedic Clinic (10/1/15).

RRMC has restructured our Occupational Health program. This program currently provides urgent health services to RRMC employees, manages the RRMC employee wellness program and provides drug testing/screening and employment physicals to area employers. This program will be decentralized as of August 2015 and alternative services have been identified for most services. This will result in a decrease of 3.3 Support Staff FTEs.

RRMC also continues to provide a subsidy to Community Health Centers of the Rutland Region (CHCRR). Please refer to the Provider Subsidies section of the narrative for additional information.

Utilization

Patient days stay consistent budget to budget. Discharges increase by 55 or .9% budget to budget. The overall length of stay is consistent budget to budget with an ALOS of 4.84 for FY 2016.

Reimbursement

The total Contractual allowance related to Medicare Services is approximately \$171 million; the allowance is down by 1.6% for \$3 million. The total contractual allowance related to Medicaid services is approximately \$60.0 million; the allowance is up by 10% for \$5.0 million.

Reimbursement Assumptions

- RRMC will remain a Medicare Sole Community Hospital for Budget 2016
- Inpatient Medicare reimbursement will receive a 1.9% increase from the current per discharge rates

- 2% Medicare Sequestration  holds will continue for all services for the entire fiscal year
- Medicare Case Mix Intensity Index will remain consistent with 2015 Projection
- The Psychiatric inpatient unit discontinued the Medicare distinct part unit designation on 8/1/14
- Outpatient Medicare has no change in Fee Schedule Reimbursement, with a slight increase in the wage index. Sequestration will continue.
- Medicaid Reimbursement remains flat from 2015
- The Medicaid Disproportionate Share program budget to budget impact is (\$532,000).
- Commercial discount contracts are anticipated to be unchanged  Blue Cross will have a 25% discount for RMRC employer group claims
- Free Care is budgeted at 1.1% of gross  revenue
- Bad Debt is budgeted at 1.6% of gross revenue

Meaningful Use

RRMC's 2016 budget includes \$655,000 of Meaningful Use funds.

Cost Shift

In part, the proposed rate increase is a  result of our need to cover costs that Medicare and Medicaid programs fail to cover. In total, the governmental and charity care cost shift to commercial payers is projected to be \$63.6M in FY 16. The Medicaid Cost Shift including Disproportionate Share is estimated at \$20.1M. The Medicare Cost Shift is estimated at \$35.8M in FY 2016. The Free Care and Bad Debt Cost shift is \$7.5M Medicare and Medicaid cover 62.9% of the cost of services.

Salaries and FTEs

There are 77.4 additional non-physician FTEs in the FY 2016 budget when compared to the prior year budget. This is a 6.9% increase in FTEs budget to budget. A summary of the changes in FTEs are as follows:

New Programs (Urology and Eye Care)	19.6
Transfer of RHF and Gift Shoppe	4.0
New Positions	54.4
Increase in covered time	1.9
Increase in Overtime	5.9
FTE Reductions	(8.4)

The areas with the largest changes in FTEs are as follows:

- ***New Programs—19.6 FTEs***
Marble Valley Urology and Marble Valley Eye Care are included in Budget 2016.
- ***Transfer of RHF and Gift Shoppe – 4.0 FTEs***
Transfer of programs to RRMC.
- ***FTE Additions – 54.4 FTEs***
FTEs were added to the following areas:

Inpatient Nursing	12.9
Clinics	16.7
Ancillary Services	10.3
Other Clinical	3.4
Support	11.1

There is an increase in various positions throughout RRMC, some of the larger ones are LNA Central Monitor Techs, RN Graduate Nurse Orientation, Patient Safety (Sitters), and positions funded by grants.

Productivity

With the proposed 2016 budgeted FTEs, productivity has increased for both measures. The day based measure, FTEs per adjusted occupied bed basis increase by 11% while the paid hours per adjusted discharge basis increased by 12%. Total FTEs per adjusted occupied bed for FY 2016 is 5.5 (FY 2015 was 5.0) and FTEs per 100 Adjusted Discharges for FY 2016 is 7.4 (FY 2015 was 6.6). RRMC's 2016 budgeted FTEs per adjusted occupied bed is favorable compared to the 2015 budget median for Vermont Community hospitals of 5.7. 

The salary budget reflects 3% wage increase for all employees effective 12/1/15.

Direct Service Nurses

Direct Service Nurses reported on Schedule 16A includes RNs and LPNs. Management, supervisory RNs, and clerical nursing were excluded from the FTEs reported in Schedule 16A.

Supply and Non-Salary Expenses

Supply and non-salary expense is proposed to have a net increase of \$4.3 million from budget to budget. The following is an overview of some of the more significant budget to budget increases/decreases in expenses:

Operating Room Supplies	\$ 1,220,000
Information Systems (Including IT Works)	\$ 1,116,000
Pharmaceuticals	\$ 1,055,000
New Programs (Eyecare, Urology)	\$ 932,000
FICA Expense	\$ 615,000
Health Insurance	(\$ 424,000)
Diagnostic Imaging	(\$ 392,000)

Inflation – RRMC has not included any inflation in the 2016 budget with limited exceptions. Area where inflation has been budgeted is health insurance.

Operating Room Supplies – This increase is due to an increase in volume, in particular orthopedic cases and due to new physician coming on board.

Information Systems (Including IT Works) – This is due to the addition of new functionality 

Pharmaceuticals– This increase is due to an increase in the 340b retail program.

New Programs– See Overall Net Patient Revenue Budget to Budget Increase section above

Diagnostic Imaging– This decrease is due to a decrease in repair and maintenance costs

FICA Expense – Related to increase in FTEs 

Provider Subsidies

The RRMC budget includes subsidy expense related to Community Health Centers of the Rutland Region (CHCRR). CHCRR is an independent 501(c) corporation established to comply with Federal regulations governing a Federally Qualified Health Center (FQHC). CHCRR received full federally qualified health center status 5/1/06. This expense is reported under the “Administration – Non-Salary Expense” line on the “EXP” tab of the state file. The subsidy expense was \$813,000 for the 2015 budget and \$700,000 for the 2016 budget.

D. RATE INCREASE

The fiscal year 2015 proposed budget includes a 3.7% overall rate increase. This rate increase would increase gross revenue by \$18.3 million and net revenue by approximately \$4.3 million. As stated previously in the reimbursement section, in part the proposed rate increase is a result of our need to cover costs that Medicare and Medicaid programs fail to cover.

RRMC does not anticipate applying this proposed 3.7% rate increase evenly across all cost centers in FY 2016. RRMC will achieve a rate increase that in part allows patient charges to be set based on costs, market competitive factors, utilization, and reimbursement. The FY 2016 RRMC rate increase allocation will hold Physician fees flat, and target a rate decrease on high volume lab tests. All other services will receive a percentage increase on 10/1/2015, allowing the total rate increase to be 3.7%. At this time, a final detailed schedule of all anticipated rate increases by department and service code is not available.

E. CAPITAL BUDGET INVESTMENTS

The routine capital budget for FY 2016 is \$9,878,000, which includes the following:

1)	Facility/Facility Contingency	\$ 1,500,000	
2)	Clinical/Clinical Contingency	\$ 1,500,000	
3)	IT/IT Contingency	\$ 1,500,000	
4)	IT Roadmap	\$ 1,316,000	
5)	Foley Cancer Center additional space	\$ 980,000	
6)	Nuclear Medicine Discovery NM/CT 670	\$ 950,000	
7)	Generator West Street	\$ 895,000	
8)	PC Remediation	\$ 720,000	
9)	Behavioral Health EMR Module (IP&OP)	\$ 517,000	

Anticipated capital budgets, excluding unapproved CoNs, for FY 2017, 2018, and 2019 are \$11.6 million, \$8.1 million and \$9.5 million, respectively. Some of the larger projects for FY 2017 include the IT Roadmap, as well as the Electrical Distribution Separation: Normal & Emergency estimated at \$3.0 million and \$1.0 millions respectively. FY 2018 includes IT Roadmap at \$3.0 million. FY 2019 includes \$3.0 million for the IT Roadmap as well as \$2.0 million to enlarge the elevator to support bariatric patients.

Anticipated Certificate of Need Applications – Years 2016 and 2017

RRMC anticipates filing a Certificate of Need for an upgrade to the Air Handling Units 1 and 2 and a Medical Office Building in FY 2016 and North Wing Psychiatric Refurbishment and Operating Room/Surgical Services in FY 2017. Operating costs related to these CoNs are not known at this time.

F. ALL OUTPATIENT VISITS

RRMC defines outpatient visits as the number of patient who register for services in the outpatient setting. The registration process produces a patient encounter, which services as the unit of measure. The encounters support various patient types: recurring, outpatient, day surgery, treatment room, and Emergency. There may be more than one service and/or procedure on any one encounter.

G. THE LATEST FEDERAL GUIDELINES AROUND COMMUNITY HEALTH NEEDS ASSESSMENTS (CHNA) WERE RELEASED ON DECEMBER 31, 2014.

RRMC has completed its Community Health Needs Assessment and the final draft of the 2015-2017 report has been presented to the Bowse Community Health Improvement Committee for review and approval. The final draft will be presented to the RRMC Board of Directors at their August 28, 2015 meeting for approval and adoption. By October 1, 2015, dissemination of the new Community Health Needs Assessment will begin.

In the coming months, the Implementation Strategy will be going through focus team and committee review. This work is scheduled to be completed by December, and a revised Implementation Strategy will be approved and adopted by the RRMC Board before the February 2016 deadline.

Asset Transfers

Based on actuarial assumptions and our goal to increase the funded status of our Defined Benefit Pension Plan we will contribute a total of \$2.0 million to our defined benefit plan in both fiscal year 2015 and 2016. We have also offered a lump sum payout to terminated vested employees whose defined pension benefit is less than \$60,000. The lump sum offer was provided to approximately 240 former employees and totals approximately \$5.0 million in benefit obligations. Eligible beneficiaries have until September 1st to make a decision. The funding for the lump sum payouts will come from our pension investments and not operations.

RRMC's Defined Benefit Plan has been frozen since 2006. In part, as a result of the requirement to implement the new mortality tables, our plan is now under funded by \$28.6 million. There have been significant increases in fees charged by the Pension Benefit Guarantee Corp (PBGC), such that we are currently considering a lump sum deposit into our plan from operating cash. The impact on days of cash if we fully fund the plan is 47 days. 

Free Care

It is the policy of Rutland Regional to follow federal poverty household guidelines in making reasonable efforts to determine eligibility for patient financial assistance before pursuing collection actions.

Eligibility is provided to the following patients where the following applies:

- You must be uninsured, underinsured, ineligible for any government healthcare insurance programs, or under financial hardship.
- The services provided to you must be medically necessary.
- All insurances to include workers compensation and auto insurances must have been billed and benefits paid to Rutland Regional Medical Center, as well as, all insurance guidelines/plan provisions must have been followed such as obtaining a preauthorization.
- Proof of household income and family size is required along with a completed application. Your eligibility must meet the financial assistance criteria based on household income and asset calculations as compared to the Federal Poverty Level (FPL).
- A 100% discount is provided to patients whose family income is below 300% of the FPL.
- Catastrophic assistance is applicable when expenses exceed 20% of the household income.

The income guidelines will be reviewed on an annual basis based on the changes in the Federal Poverty Guidelines.

This policy and the Financial Assistance Policy (FAP) set forth herein constitute the official financial assistance policy within the meaning of section 501(r) of the Internal Revenue Code for RRMC as approved by RRMC's System Finance Committee and Board of Directors.

No FAP eligible individual will be charged more for emergency or other medically necessary care than the amounts generally billed.

Community Projects/Subsidies

RRMC does not have any planned community expenditures as directed by the Board for FY 2016, except as noted above under the "Provider Subsidies" section.

Net Revenue

RRMC's net patient revenue increase is 4.06% from budget 2015 to budget 2016. RRMC has two exceptions to the net revenue increase limit (see "see Overall Budget Net Patient Budget to Budget Increase section) and with those exceptions RRMC's net patient revenue increase will decrease to 2.9%.

Operating Margin

RRMC's operating margin is budgeted at 2.5% of net patient revenue, or \$5.9 million for fiscal year 2016. This operating margin is necessary in order to continue to invest in necessary capital, fund our pension plan, and repay debt service payments.

Summary

We believe that RRMC's proposed FY 2016 budget is a sound, responsible plan to attain our goals of locally controlled high quality care at a reasonable cost.

We would be happy to answer any questions you may have concerning the information in this letter.

Very truly yours,



Edward Ogorzalek
Treasurer, CFO

Attachments

cc: Thomas Huebner